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RYAN REMIORZ/CP

Former CEO Claude Chagnon has left Groupe Vidéotron as Quebecor tightens its grip on the company. A spokesman dismissed a published report that Mr. Chagnon was pushed out, saying his departure was anticipated.

Vidéotron CEO resigns post

Claude Chagnon, son of founder, will stay on as a corporate director

BY BERTRAND MAROTTE, MONTREAL

Groupe Vidéotron Ltée's chief executive officer Claude Chagnon has left the company as new owner **Quebecor Inc.** tightens its grip over the cable and broadcasting giant and consolidates operations.

Mr. Chagnon — who with his father André bitterly fought Quebecor's hostile $5.2-billion cash takeover bid earlier this year and backed a rival offer from Toronto-based **Rogers Communications Inc.** — resigned last week as president and CEO of Vidéotron, Serge Gouin, vice-chairman of Salomon Smith Barney Canada Inc., said yesterday.

Mr. Chagnon will stay on as a director of Groupe Vidéotron Ltée and of broadcasting division **TVA Group Inc.**, said Mr. Gouin, who is acting as trustee for Videotron Communications Inc. until the federal broadcasting regulator has ruled on the sale of the cable licences to Quebecor.

Dismissing a published report that Mr. Chagnon was pushed out, Mr. Gouin said his departure was anticipated, given the fact that holding company Groupe Vidéotron is being phased out and its assets folded into a new multimedia division at Quebecor.

Neither Claude nor André Chagnon, the founder of Montreal-based Vidéotron, was available to comment yesterday.

Luc Lavoie, a spokesman for Quebecor CEO Pierre Karl Péladeau, refused to comment on the departure.

Mr. Chagnon has company as a departing executive.

Videotron Communications announced Thursday that four senior managers had left, including Marcel Raymond, vice-president of finance and administration.

They joined four other executives at Groupe Vidéotron who were also leaving, including Guy Beaudry, first vice-president of corporate affairs and Benoît Deschamps, vice-president of financial planning and treasurer.

Since formally taking control of Groupe Vidéotron on Oct. 23 with the financial backing of the powerful **Caisse de dépôt et placement du Québec**, Quebecor has moved swiftly to slash costs and prepare the ground for Mr. Péladeau's grand vision of a multimedia empire built on synergies among newspapers, magazines, broadcasting, telephony, cable and the Internet.

Montreal-based Quebecor owns a controlling stake in the Sun Media daily tabloid chain, and its other holdings include the Canoe Web portal and Internet search engine Netgraphe Inc.

Earlier this week, Quebecor told Vidéotron to slash expenses by 30 per cent, reducing its capital expenditures budget to $260-million from $372-million for the year ending Aug. 30, 2001.

Quebecor also announced a management and ownership restructuring of publicly traded Netgraphe, with plans to merge it with privately held Canoe.

No decision has yet been made on whether the merged entity will be public or private.

The rejigging at Netgraphe includes the departure of the company's two most senior executives.

Mr. Péladeau has been under fire from critics who say they fail to see how he will pull off his vision of a communications empire modelled after a merged American Online Inc.-Time Warner Inc. in the United States.

The management exodus at several divisions — Vidéotron, Canoe and Sun Media — as well as at head office has sparked concern that the pool of expertise is being drained.

Mr. Péladeau, 39, has also been criticized for aiming his guns at **Abitibi-Consolidated Inc.**, the forest products giant that has seen its share price flag recently.

Critics say his battle to oust Abitibi CEO John Weaver and replace him with former chairman Michel Desbiens is an unnecessary distraction at a time of turmoil at Quebecor.

Quebecor, the owner of an 11-per-cent stake in Abitibi, claims Mr. Weaver has not done enough to successfully integrate the cost-savings culture at smaller rival **Donohue Inc.**, the former Quebecor subsidiary taken over by Abitibi earlier this year.

Yet Quebecor's share price has lost about half its value since the all-time high it reached in February, on investor fears that it has lost its way under Mr. Péladeau's aggressive drive to build a New Economy empire.

Small firms, startups win digital licences

Salter Street lands indie movie channel; Levfam will launch gay lifestyle station

BY KEITH DAMSELL, MEDIA REPORTER

Small producers and startup broadcasters were the surprising victors yesterday as the federal broadcast regulator issued its list of winners for 21 new digital television licences.

Salter Street Films Ltd. of Halifax, a television producer best known for *This Hour Has 22 Minutes*, won the fight to launch an independent film station. Meanwhile, **Levfam Holdings Inc.'s** gay lifestyle channel received the go-ahead from the Canadian Radio-television and Telecommunications Commission. The indie film and gay formats were two of the most sought after licences at the CRTC's digital hearings last August.

"The CRTC is giving a message they want to expand the broadcast community," said Susan Reid, a Montreal-based analyst with Research Capital Corp.

The coveted Category One channels — 16 English-language and five French-language — will begin broadcasting next fall. The new licences, valued at about $25-million each by Bay Street analysts, must be carried by cable providers and are expected to help drive more analog customers to the digital format. At present, only 6 per cent of all cable customers in Canada subscribe to digital television.

Some major entertainment companies fell short of expectations, analysts said. **Astral Media Inc.** of Montreal lost its campaign for a single Category One licence. **Alliance Atlantis Communications Inc.** lobbied for five channels but received only one for its proposed Health Network Canada. The company also owns a 40-per-cent stake in PrideVision, Levfam's gay channel.

Nevertheless, Michael MacMillan, Alliance chief executive officer, was pleased with the CRTC's decision to award the film and television company with more than 30 Category Two licences. In total, the regulator awarded 262 Category Two licences, new channels that cable companies will not be obligated to offer to customers.

"Cable companies are going to want to choose the best-known brands," Mr. MacMillan said. "They will launch Category Twos and Ones altogether and the consumer will never know which was which because consumers' only concern will be the channels they want to watch."

CHUM Ltd. and **CTV Inc.** fared much better, receiving three Category One channels each. CHUM, best known for its CityTV and MuchMusic formats, was awarded licences for book and fashion television and a French-language beauty channel. The CTV network won the right to travel, women's sports and a French-language sports channel. In addition, CTV has interests in an approved French-language business channel and a French-language comedy channel.

"It's a balanced decision," said Trina McQueen, executive vice-president of CTV. "Everybody got a little wine and everybody had to put a little water in their wine."

An embarrassing news leak detailing the English-language Category One winners forced the CRTC to release its decision three weeks ahead of schedule.

Oil firms depart tradition

BY DAVID PARKINSON, CALGARY

Canadian oil and gas producers released annual reserve estimates yesterday, underlining the industry's shift in exploration emphasis away from conventional deposits in the Western Canada Sedimentary Basin.

The Canadian Association of Petroleum Producers (CAPP) estimated that reserves of crude oil and natural gas stood at 11.9 billion barrels of oil equivalent (BOE) at the end of 1999, up 2.1 billion BOE from the end of 1998. Producers added 2.9 billion BOE of new reserves in the year, far outstripping production of 759 million BOE.

However, the increase resulted entirely from reserve additions of heavy oil from northern Alberta's oil sands projects. Reserves of oil and natural gas from conventional sources — both in Western Canada and the East Coast offshore fields — declined during the year.

"This report reflects the lower [exploration] activity levels of 1999, not the higher levels seen so far in 2000," CAPP said in its report.

"By its nature, our industry is highly capital-intensive," said John Diedwart, chairman of CAPP's Fiscal Executive Policy Group, adding that the industry must "invest large sums of money just to maintain current production levels."

Prices for crude oil and natural gas were weak in 1999, particularly early in the year, the busiest season for oil and gas drilling. The low returns discouraged drilling.

But prices this year have surged, fuelling strong cash flow for producers and prompting many companies to increase their spending on exploration and development.

Brokerage industry on a record run

Nine-month operating profit at $2.8-billion, despite 2 consecutive quarters of declines

BY ALLAN ROBINSON

The Canadian brokerage industry, helped by strong retail investing, continues on a record run although operating profit has fallen for two consecutive quarters.

"The retail juggernaut underpins continued profit growth," the Investment Dealers Association of Canada said in its Securities Industry Performance report, released yesterday.

The industry recorded a record nine-month operating profit of $2.8-billion — more than double the $1.3-billion earned a year earlier and already higher than the $1.9-billion earned in all of 1999.

Net profit (after taxes and bonuses) for the nine months totalled $1-billion, compared with $371-million a year earlier.

However, business has been slowing as the year goes on. Operating profit for the third quarter fell 12 per cent to $797-million, down from $903-million during the second quarter. Operating profit in the first quarter was $1.1-billion.

Stock trading by retail investors is providing the push.

"The retail execution and advisory business has been the engine of profit growth," the association said, while the capital-intensive underwriting and trading businesses have "inhibited performance."

Trading volume on Canadian stock exchanges this year is 50 per cent higher than a year ago mainly as a result of the interest in technology stocks. That helped push commission revenue to $4.7-billion for the nine months ended Sept. 30, 2000, up from $3.1-billion a year earlier.

The Canadian brokerage industry also has benefited from its equity market making activities in which they buy and sell securities on their own accounts. Principal trading soared this year to $886-million from $331-million, outstripping bond trading activities for the first time.

Equity trading accounted for about 9 per cent of the industry's $9.5-billion revenue for the first nine months of 2000. The industry's total revenue for the same period a year earlier was $6.4-billion.

Fixed income trading revenue fell 6 per cent to $512-million in the first nine months. The IDA said dealers likely will continue to "dismantle infrastructure and streamline operations" of those activities because of poor earnings and bleak outlook because of the shrinking government debt markets.

The brokerage industry also made $892-million in net interest in the nine months — a 65-per-cent increase from a year earlier. That was earned from interest on $11.9-billion in margin loans and the spread on the difference between amount earned and the amount paid out to clients on their nearly $18-billion of cash on deposit.

Revenue from advisory fees on private accounts and funds under management rose 56 per cent to $923-million from $594-million.

"Fee revenue has expanded dramatically over the past three years reflecting the expansion of fee-based products and services being provided to clients, the IDA said.

Commissions from selling mutual funds were $1.1-billion up from $852-million a year earlier.

Laidlaw shareholders face diminished stake

Investors debate who will benefit from conversion of debt to equity

BY KEITH McARTHUR
TRANSPORTATION REPORTER

Laidlaw Inc. has confirmed to its shareholders that their stake in the troubled transportation company will be diminished through "a large conversion of debt to equity."

But investors holding the former blue-chip stock say a letter from Laidlaw's top two officers hasn't clarified whether there will be anything left for them after the Burlington, Ont.-based company restructures its debt.

Shareholders debated the meaning of the letter on Internet bulletin boards this week.

Bullish investors focused on a paragraph toward the end of the letter in which Laidlaw said its plan would "generate increased long-term shareholder value."

But Bob Rints, who holds tens of thousands of Laidlaw shares, said the beneficiaries of that increased value will be the creditors who will receive the new equity.

He said it is as clear as ever that shareholders will be left empty-handed.

"I think they've dressed it up pretty good to make it look like their hearts are on their sleeves for shareholders," Mr. Rints said in an interview. "But it's just a smoke screen."

Laidlaw spokesman Tag Watson said virtually all of Laidlaw's value will go to the company's creditors.

How much is left for current shareholders will depend on negotiations with banks and bondholders, he said.

Several investors, including Mr. Rints, have questioned whether Laidlaw's board of directors is living up to its responsibilities to represent the best interests of shareholders.

'I think they've dressed it up pretty good to make it look like their hearts are on their sleeves for shareholders.'

Laidlaw says its board is aware of those responsibilities, but also has a broader fiduciary responsibility to the interest of all stakeholder groups, including debt holders, suppliers, customers and employees.

"Accordingly, as the company negotiates with its creditor groups, it is doing so in the context of this broader mandate," said the letter, signed by chairman Peter Widdrington and president and chief executive officer John Grainger.

Now that Laidlaw has secured bridge financing, they write, the company will turn its attention to year-end financial statements.

Laidlaw's third-quarter results are scheduled to be released next Thursday.

Mr. Rints is seeking to call a special meeting and elect a new board of directors.

Laidlaw shares, which traded as high as $27.75 a decade ago, closed yesterday at 24 cents on the Toronto Stock Exchange.

Jitec report questions company's assets, marketing

BY BERTRAND MAROTTE, MONTREAL

A report commissioned by an independent committee of Jitec Inc.'s board questions aspects of the troubled company's technology assets and marketing strategy.

Only a few excerpts from the 15-page report, a copy of which was obtained by The Globe and Mail, were cited in a company news release issued earlier this week that also announced the resignation of founder and chief executive officer Benoît Laliberté.

Mr. Laliberté stepped down after the company said he borrowed $865,000 of company money without board knowledge or authorization, with another $1.2-million going to companies connected to him. Mr. Laliberté said this week that the transactions were done in the interests of shareholders and not for his personal gain. The company has said the money will be reimbursed.

In a review of Jitec's technology assets, the confidential report says: "Jitec has managed to create a clever repackaging of computing resources, which could prove advantageous."

But it adds: "We saw neither technologies nor business processes that were radically new or difficult to copy or develop. Components used in Jitec products are readily available and often standard. While clever and original, the packaging and assembly done by Jitec is within the skill sets of many, is not very difficult to do, and requires little funding for a prototype.

"Jitec will need to assess its intellectual property position, patent what it believes is patentable or is breakthrough, and devise a plan to own or create significant intellectual property assets. We did not see any patents, or evidence of significant research and development."

The report goes on to say its authors were surprised to discover Jitec has no vice-president of marketing "to fill the palpable absence of marketing direction and positioning."

It also said the company has "fewer than 50 users."

Jitec, which went public on the Montreal Exchange in July, leases no-frills computer terminals to small and medium-sized businesses for $49.95 a month; the terminals are connected to powerful servers at Jitec's operations centre which provide state-of-the-art software and high-speed Internet access.

Jitec shares have been hammered to the $1 level in the wake of allegations by the Quebec Securities Commission that Mr. Laliberté artificially boosted the stock through his trading activities.

Mr. Laliberté has been barred from trading Jitec stock and is scheduled to defend himself at a QSC hearing next week.

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